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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 002352

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [SOCI](#) [HO](#)
SUBJECT: HONDURAN BANKING SECTOR CONSOLIDATING AS REGIONAL
AND LOCAL BANKS GET BOUGHT UP

Classified By: Ambassador Charles Ford for reasons 1.4 (b) and (d)

11. (C) Summary: The purchase by General Electric of Honduran Banco Mercantil (BAMER) marks the fifth such acquisition to affect Honduras this year, but the first aimed specifically at Honduras. Consolidation of the sector at the hands of more experienced foreign banks (including Citibank, HSBC, and G.E. Capital) should actually spur competition, leading to lower interest rates and better financial services. However, Post questions why at least one Honduran economic magnate -- Jose Lamas, the owner of BAMER -- is steadily divesting from the country. Lamas seems most concerned about the weak capability (or lack of will) of the Zelaya administration to maintain disciplined economic policies. End Summary.

12. (C) On December 15 Post learned from two separate members of the Board of Directors that Honduran Banco Mercantil (BAMER) has concluded talks to be acquired by U.S. firm General Electric. One board member told EconChief that the sale will be for cash, made in tranches over the next year. Up to 15 percent of the deal will be held in reserve until the end of year two, to insure against any nasty surprises that GE could discover following the sale. A third source not directly involved in the talks estimated the value of the sale at USD 100 million.

13. (U) This sale marks the fifth such takeover in Honduras in the last year. HSBC bought out BanIstmo (which operates BGA Bank in Honduras) early in the year, followed by G.E.'s purchase of 49 percent of Nicaraguan Bank BAC (likely soon to increase to 52 percent according to industry sources), and Citibank's purchases of both Nicaragua's Banco Uno and El Salvador's Banco Cuscatlan. All three banks, though based elsewhere, have operations in Honduras as well. Citibank already operated for decades in Honduras under the name Banco de Honduras. The five acquired banks represent approximately 35 percent of the Honduran banking sector (35.0 percent of total deposits, 36.5 percent of total credit. A full breakdown of the banking sector is available from the banking regulator's website the National Commission on Banking and Insurance, or CNBS at www.cnbs.org/web/.)

14. (C) The BAMER purchase is noteworthy for two reasons: First, this is the first such U.S. purchase specifically targeting the Honduran market. Each of the other four banks was a satellite of major a regional bank that was presumably acquired for regional, not Honduran, exposure. At nearly 10

percent of the market, BAMER is large, but BGA was larger. (BGA was the second largest bank in the country; Bamer is sixth largest.)

15. (C) Second, the sale of BAMER marks another step in the divestiture of multi-millionaire Jose Lamas from Honduras. Lamas last year sold his controlling stake in Honduran gasoline marketer DIPPSA, and later liquidated his loan portfolio to that company (selling it to Honduras' largest bank, Atlantida). Lamas has also recently sold his controlling stake in Honduras' international airport concession, a major Tegucigalpa shopping center and a supermarket chain (La Colonia), and rumors continue that he seeks to sell his assets in the forestry sector as well.

16. (C) Is Lamas right? Fellow bankers tend to discount Lamas' reaction as more visceral than reasoned. They point out that Lamas lost everything when he fled the communist revolution in Cuba as a teen, and say he is ever vigilant of government doing that to him again. That said, Lamas and others correctly note that after one year of Zelaya's term, some troubling trends are emerging. The Zelaya team has apparently lost some of the former confidence of the International Monetary Fund, which did not complete its April 2006 PRGF review (a Fund euphemism for saying Honduras risked not passing the review). Donor nations complain that the GOH is dramatically under-executing its investment projects, both hamstringing development assistance and failing to lay the foundation for future growth. Meanwhile, spending for current expenses -- including fuel subsidies, fertilizer subsidies, electricity subsidies, and inflated teachers' salaries -- has exploded.

17. (C) So why the sudden interest by bankers in Honduras? First, it is important to bear in mind that in most cases

TEGUCIGALP 00002352 002 OF 002

these mergers and acquisitions reflect a desire for greater exposure to an underdeveloped Central American market more broadly, not specifically to Honduras. In part this has been spurred by relative political stability in the region paired with the entry into force of the Central American Free Trade Agreement (CAFTA). The other obvious draw is the relative underdevelopment of financial intermediation in Honduras specifically. Banks have long been protected here, with predictable results: few, uncreative financial products; relationship banking; and an interest rate spread between deposit rates and loan rates that even today remains at nearly 12.4 percent (down only slightly from 14 percent in 2004). There is clearly much room for more aggressive banks to take market share, driving down rates in the process. If allowed to takes its course, this could prove highly beneficial to the Honduran consumer. But, for that to happen, many vested interests (including the Minister of the Presidency, son of the owner of the 11 th largest bank in Honduras, Banco Continental) will see their easy profits evaporate as financial sector competition finally takes hold.

18. (C) Comment: Lamas strongly backed losing Presidential candidate Porfirio "Pepe" Lobo in the 2005 elections, leading many observers believe that his departure from the scene is attributable to fears that he will not be treated fairly by the Zelaya government. Post is concerned that the truth might be darker still: that Lamas, an experienced and highly successful businessman, no longer views Honduras as a promising market in which to invest. Lamas' previous comments to Ambassador and others suggest Lamas has little faith in the Zelaya team's abilities to continue the trajectory of economic development started by former President Maduro (2001-2005). If correct, Lamas' withdrawal from Honduras is a negative leading indicator for future economic performance. Post will continue to monitor this and other economic indicators with interest. End Comment.

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